

Date: Board Governance Draft

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Category: Trust Histories

JEF Memorial Trust

MEMORANDUM

TO: Rob Lehman
CC: Memorial Trustees
FROM: Bruce Fetzer
DATE: November 24, 2003
RE: Board Governance Draft, for review, comment and approval

This memorandum presents the circumstances of the John E Fetzer Memorial Trust and its governance structure. The uniqueness of John E Fetzer's approach and vision create a responsibility for the trustees that transcend ordinary trust obligations. Against a backdrop of increased public scrutiny of not-for-profit organizations, it is incumbent upon the Trust to seek outside commentary regarding the number of compensated days per year, conducting board activities.

It should also be noted that the founder, John E. Fetzer, specifically provided in article IX of his Trust document that "Each Trustee hereunder shall be entitled to reasonable compensation for the services rendered by such Trustee". This provision recognizes the ongoing responsibilities and services that the founder envisioned would be required to carry out the purposes of the Trust over its twenty year period, and desired as well as provided for compensation with respect thereto.

GOVERNANCE STRUCTURE

The John E. Fetzer Memorial Trust is a private foundation established for the unique purpose of implementing and preserving the perpetual vision of John E Fetzer within the John E Fetzer Institute. It was created in 1991 by its benefactor, John E Fetzer, and terminates in 2011.

The scope of trustees goes beyond the responsibility of administering the Fetzer Memorial Trust and its activities. Trustees have significant roles in helping to shape and guide the John E Fetzer Institute, its beneficiary.

The unique charter of the trust requires trustees to work closely with the programs of the trust. Additionally, the administrative and financial results of the trust have been achieved with far more productivity and frugality by administering operations internally

by the trustees themselves. Trustees must be available to work up to full time from time to time, at personal sacrifice, as situations arise when immediate and concerted action is needed. Trustees donate space, office support and other overhead without remuneration.

Trustees attend all Fetzer Institute board meetings and functions, and convene monthly trust board meetings, in addition to retreats, and conferences. Additionally, daily contact in administering operations provides a coordinated and continuous discipline.

The trust is accountable to the IRS, State of Michigan and public, by completing an annual audit, filing its tax returns with governing agencies and posting on the internet. Additionally, all investment operations are independently evaluated by third parties and all actions and results are reported for comment and review, by its beneficiary.

The compensation of the Board of Trustees is established by an independent panel of experts and is reviewed every three years. The compensation is linked to the number of days worked. The compensation framework is currently undergoing the normal three-year review.

Of the five trustees, the chairman receives no compensation, one trustee receives no trustee fee, but is paid a salary, two other trustees receive a trustee fee in addition to service fees, and the fifth trustee only receives a trustee fee.

GOVERNANCE RATIONALE

The wisdom of John E. Fetzer in permanently selecting five trustees for a period of twenty years has been described by Bob Boisture, counsel for Caplin & Drysdale, as follows “The structure that he (John) conceived illustrates his desire that five of his closest associates, whom he named as co-Trustees, have significant roles in helping to shape and guide the Institute.”

All five trustees of the Memorial Trust had been in close contact with John E. Fetzer in his personal spiritual journey, as well as his vision for the mission of the John E. Fetzer Institute and were directly and permanently selected and commissioned by John E. Fetzer to continue his work and vision during the period of the trust. The unique knowledge of the appointed trustees requires their direct involvement in order to preserve the founder’s legacy and vision. All trustees embody a personal commitment to the work of the founder’s vision.

The founder had a clear intent of engaging the trustees of the Memorial Trust to continue professional, interpersonal and spiritual relationships established by the founder during his lifetime. Moreover, the founder believed that the mix of individuals, when engaged would produce an esoteric, but vital service. As in parts of a body, each trustee brings key knowledge of the founder to the group to produce the whole. This unique organization, so conceived by the founder, to ensure the preservation and implementation

of his vision in the beneficiary, has and continues to require the involvement of all of the parts to ensure success.

The Trustees of the Memorial Trust are committed to a governance model called “Deep Engagement.” It is a broader and more demanding relationship based role than that of typical nonprofit trustees. It is characterized by extraordinary time commitments of the Trustees, both in discharging their fiduciary responsibilities as Trustees, and in administering the Trust.

TIME COMMITMENT

The average annual time commitment of each trustee is thirty six days per year. Trustees have had close to a 100% attendance record since inception in 1991! The activities include the following:

- 1) Twelve one day board meetings for the trust (including average travel).
- 2) Commonly, one to two planning retreats per year with its beneficiary of total duration of between four to eight days including travel.
- 3) Attendance at three Fetzer Institute board meetings per year, each of five days duration, for a total of fifteen days per year.
- 4) Participation in sundry projects of the trust, including archival John Fetzer’s history, communications, and research. The average trustee spends approximately three days per year on these activities.
- 5) To explore directly, the esoteric purposes of what the founder, John E. Fetzer described as the Age of the Archangel Michael and Freedom of Spirit.

RESULTS PRODUCED BY THE DEEPLY ENGAGED BOARD

- Started with **\$32.7 million**, paid out **\$35.9 million** through June 2003, have **\$63 million** remaining.
- Achieved an excess investment return of over **\$7 million** in excess of the Trust’s benchmark over the prior four years concluding on 12/31/02, as measured by independent investment performance service, Cambridge and Associates.
- **Saved \$990,000 in overhead** on the Stanford University (Walleczek project), because the Memorial Trust made a grant to Stanford instead of the Institute making a contract for service.
- Paid a **\$3million grant to IONS** that the Institute was not able to pay, due to its statutory limitation on grants.

- Contributed to asset growth at Institute. It's a mathematical fact that separate endowments, where one endowment grants to the corpus of another endowment, grow faster than if they were combined. If both funds average a return of 9%/year, by 2011, the assets of the Institute will be **\$63 million** larger than had the endowments been combined in 1991. This will permanently add **\$3 million per year** in flexible program spending to the Institute budget.
- Resolved litigation, managed and sold apartment complex in Florida.
- Resolved litigation, managed and sold building in Canada, transforming a net liability of \$3.5 million to a profit of \$4.4 million.
- Researched, packaged and competitively bid and sold Arizona property, originally appraised at \$0.8 million for \$2.7 million.
- Initiated projects to document and preserve John E. Fetzer's legacy.
 - a. Initiated the John E Fetzer archive project at Institute.
 - b. Commissioned a book on John E. Fetzer's baseball career.
 - c. Commissioned a book on John E. Fetzer's spiritual life.
 - d. Initiated oral histories about John E Fetzer.
 - e. Initiated a museum of John E. Fetzer at the Institute.
 - f. Worked on the redesign of the Fetzer Business Center display.
 - g. Developed support to nominate John E. Fetzer to the Baseball Hall of Fame.
 - h. Sponsored the induction of "The Corner" (Michigan and Trumbell) into the Michigan Sports Hall of Fame on behalf of John E Fetzer.
- Conducted a series of invited speakers to discuss aspects of spirituality.
- Assisted Institute and new trustees in understanding John E. Fetzer's vision, mission and legacy.
- Avoided extensive litigation and expense, and initiated program on Healing and The Law with a \$300,000 seed donation, which inured to the benefit of the Institute.

INDUSTRY PRACTICE FOR BOARD INVOLVEMENT

- The American Institute of CPAs is promoting deeper involvement of board members especially in the determination and evaluation of organizational objectives. (source: "20 Questions Directors Should Ask About Strategy", Canadian Institute of Chartered Accountants, Dr Bart CA, pg.10-12.)

- Board time commitments are accelerating at Fortune 1000 companies. The average director spends 300 hours per year versus 150 in 1999. (source: Roger Raber CEO of National Association of Corporate Directors, Oct 27, 2003 interview)
- Time spent by foundation board members varies greatly by organization, with some foundation trustees spending full time. (source PF 990s)